



The Real Estate ANALYST

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Volume XVII

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies....Surveys....Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 13

BUYING & SELLING PERIODS

PROBABLY the two most important points to remember regarding investments are: 1. There are no safe permanent investments; and 2. Buy at the bottom and sell at the top. To most people these two points may seem so fundamentally simple that they need not even be mentioned. On the other hand, in most real estate and stock sales (for investment purposes) half of the participants are guessing wrong.

In stock market transactions there is a much greater possibility of being hurt than in real estate because the stock market moves so much more rapidly than the real estate cycle. In fact, the real estate cycle moves so slowly that for hundreds of years no one knew it even existed.

In 1935 we published what we believe was the first national real estate activity chart in the United States. A short time after that Roy Wenzlick's book, "The Coming Boom in Real Estate," was published. In that book appeared the chart, Buying and Selling Periods for Real Estate, that is brought up to date on pages 102 through 105. A glance at this chart shows that successful operations in the real estate market do not require the rapid maneuvering that is sometimes necessary in playing the stock market. The long slow swings of the real estate cycle give investors plenty of time to get in, and out.

It was late in 1933 when we began advising our clients to buy real estate, pointing out to them what had taken place in the past and outlining to them the changes that have taken place since then.

A few months ago we began to advise our clients to sell most types of real estate, particularly older residences. Now, due to recent developments on the international scene, we advise a watchful waiting, do nothing policy. If you don't own real estate, don't buy. If you own, don't sell. Wait and see which way the cat hops. If a war between the United States and Russia breaks out, there will be another fearful round of inflation and real estate should be bought as a partial hedge against this inflation. If this war does not break out (and we believe this to be more probable) then inflation will begin to slacken and real estate should be sold. (Roy Wenzlick's current "As I See It" Bulletin amplifies these remarks considerably.)

The point is this - real estate owners need not be in a big hurry to sell. The cycle will give them time to get out, and by the same token, if war does come, the cycle will not start its upswing too quickly for those who want to get aboard. Unless one knows, or has a very good idea where he's going, there's not much use in starting out, and at this reading it is decidedly unsafe to guess which way the market will go.

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WHO HAS THE COURAGE ?

WHILE both political parties have taken a few tentative swipes at the nation's high taxes, and at this writing seem to have passed a substantial tax cut, neither of them has had the courage or foresight to grapple directly with the problem.

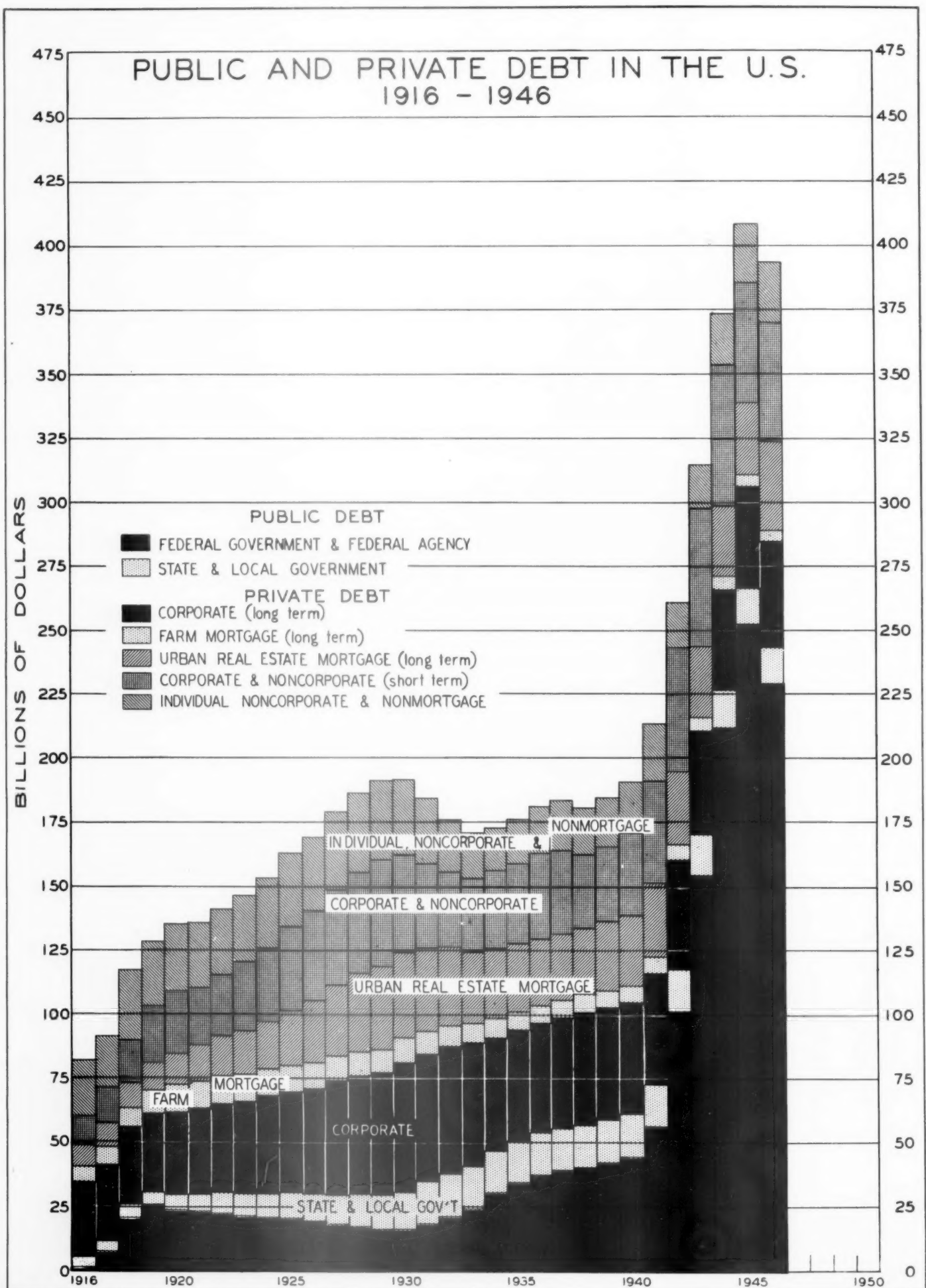
Wound tightly into the core of our tax dilemma is the benevolent attitude of the Federal government toward the citizens of the country. Each year since 1932 has seen an increase in government paternalism and government spending and now, after sixteen years, the public's first reaction to anything that it considers "wrong" is to call on the government to "do something" about it.

One of the most important issues facing the nation today is this question of government assistance. For the past sixteen years the trend has been toward more assistance, more spending and more taxation. This course inevitably leads to a bigger, more strongly centralized government. It results in the concentration of too much power in the hands of a comparatively small group.

Have we any reason to expect the people to vote away these pseudo benefits they receive? So far they have shown no inclination that they will. If they won't give up government assistance during the biggest boom in our history, is it logical to believe that they will give it up after the boom is over? On the contrary, they will probably demand more help, thereby burdening the country (and in the long run themselves) with still greater taxes, more stringent restrictions, and a more powerful central government.

There are two chances to stop this march from democracy to bureaucracy: 1. abolition or repeal by the party in power of all but the most fundamental activities of democratic government; and 2. gradual education of the general public as to the true nature of the free enterprise system. The first alternative would no doubt result in political suicide for the party in power and, therefore, is a forlorn hope. The second, while not so quick a remedy, offers the greater chance of lasting success. Business, both big and small, has for the most part been sadly lacking in statesmanship and public relations. The true story of free enterprise should be told by every advertising medium available from now on until the public realizes that it is the best social and economic system our world has ever devised and that, while it has its shortcomings, it is a comparatively new concept and will overcome those shortcomings if given a chance. The real fight against communism and socialism should not be made by the government. It should be made by the business men of America.

The chart on the opposite page shows the enormous Federal tax burden carried by the people of the country. Total internal revenue collected in 1947 amounted to \$271 per capita, or over \$970 per family. The annual report of the Commissioner of Internal Revenue from which these figures were taken makes interesting, if not exciting reading. The government leaves few stones unturned in its quest for the taxpayer's money. In addition to the "normal" sources of revenue, there are also taxes on pinball machines, bowling alleys, matches, adulterated butter, electric signs, phonograph records, electric light bulbs, and even on opium and marihuana.



WHY HIGHER INTEREST RATES ?

THE chart on page 100 shows the public and private debt in the United States from 1916 through 1946. In order to avoid duplication, the following debt factors have been excluded: 1. deposit liabilities of banks and amount of bank notes in circulation; 2. value of outstanding policies and annuities of life insurance companies; 3. short-term debts among individuals and unincorporated nonfinancial business firms; and 4. authorized but unissued or outstanding but reacquired corporate bonds.

In 1939 the total public and private debt was \$185 billion. Of this total, only \$42.6 billion (23 per cent) was Federal debt. With the beginning of the Second World War, our Federal debt started to increase rapidly and by 1945 had risen to approximately \$253 billion, representing 62 per cent of the total public and private debt.

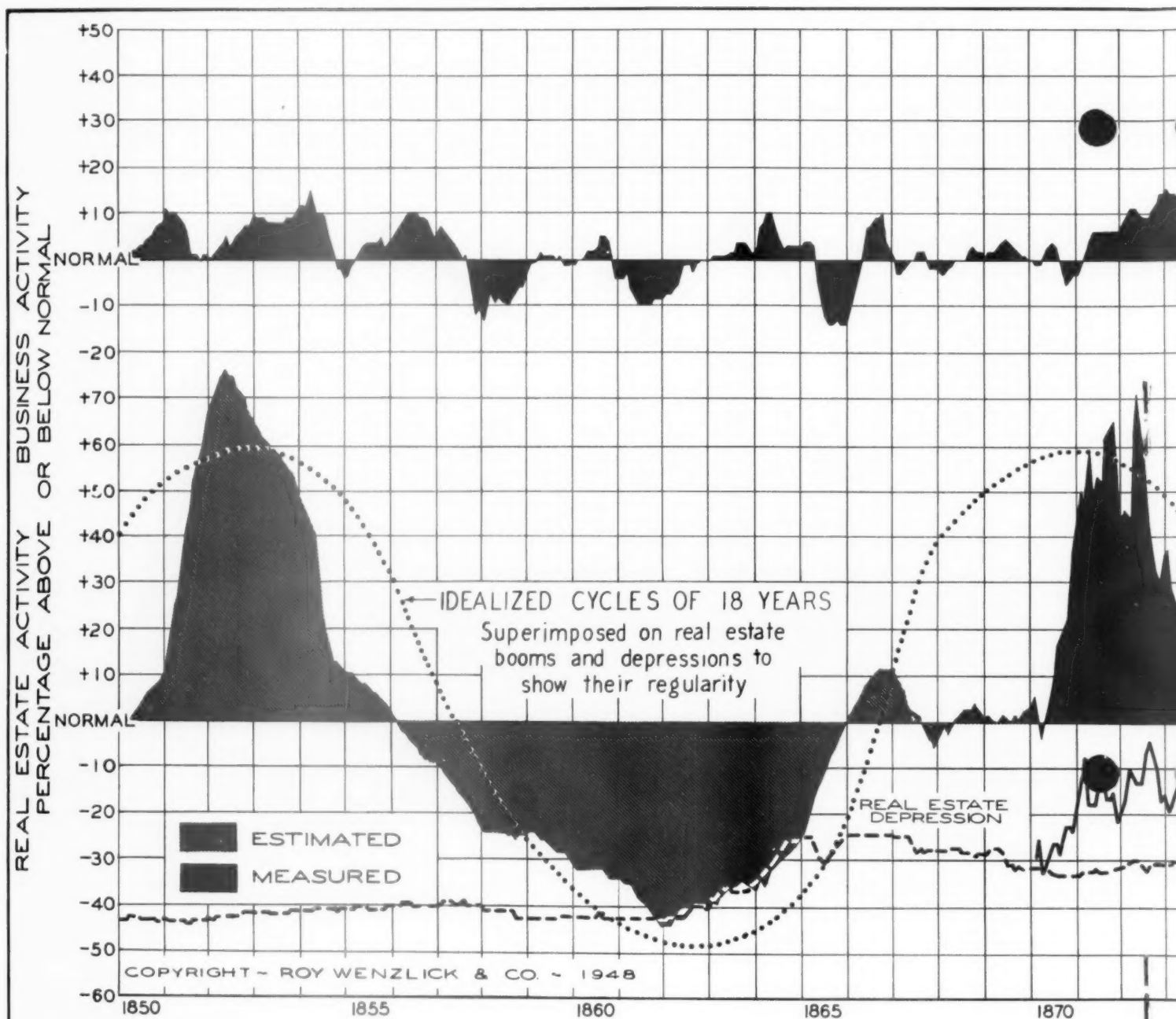
One of the most provocative aspects of our large Federal debt is the influence the management of this debt has on interest rates. The government has been the strongest advocate of low interest rates in order to keep the interest charge on the public debt as low as possible, and because it feels that low interest rates encourage borrowing for launching new industries and expanding existing ones.

For the most part, investors are not drawn by the extremely low rates paid by the government, but insofar as commercial banks are concerned the rate is of secondary importance. The inducement for banks to purchase governments does not lie in the rate but in the fact that by increasing their reserves (on credit) they can increase the volume of bank loans. While this arrangement is, therefore, quite satisfactory to the commercial banks and to the government, it is nevertheless responsible for a large part of our present inflation. Low interest rates may offer some inducement for business to expand, but they certainly have the opposite effect on investors. Consequently, inflationary bank loans have financed a great deal of our recent and present business expansion because the low interest rates, while attractive enough to the banks, do not offer sufficient reward to bring investors into the market on the scale necessary to finance these expansions.

Marriner Eccles was one of the few government officials with the courage to voice his convictions when he said in a Federal Reserve Bulletin over two years ago:

"...it is important to point out that so long as the public debt continues to be monetized through the purchase of government securities by the banking system, the supply of money will continue to increase, thus tending further to reduce the interest rate on savings and investment funds. The resultant pressure of an increasing money supply and of lower interest rates is bound to have a further inflationary effect upon all capital assets and to increase the difficulty of holding down the cost of living."

Shortly after this statement by Mr. Eccles, the government put forth rather cautious measures to prevent any further drop in interest rates and talked some about limiting or contracting bank credit. Manipulation of the bond market must be well thought out and should proceed slowly, as too rapid a rise in the interest rate will endanger the capital and reserve of many commercial banks.



SELL REAL ESTATE

BUY REAL ESTATE

BOOM HYSTERIA DEVELOPS.
PRODUCING READY MARKET
AT INFLATED PRICES.
SELL REAL ESTATE

PRODUCING READY MARKET
AT INFLATED PRICES.

SELL REAL ESTATE

BUILDING BOOM NOW PRODUCING
DWELLING UNITS FASTER THAN
THE RATE OF ABSORPTION.
DEMAND SHRINKING. VACANCIES
INCREASING. RENTALS AND VALUES
FALLING. INCREASING FORECLOSURES
FURTHER DEPRESS PRICES BY
THROWING DISTRESS PROPERTIES
ON AN UNINTERESTED MARKET.

BUY REAL ESTATE

VACANCY SLOWLY ABSORBED.
HOUSING SHORTAGE DEVELOPS.
RENTALS AND MARKET PRICES
RISE UNTIL SALES PRICES EQUAL
OR EXCEED REPLACEMENT COST,
RESULTING IN A BUILDING BOOM.
DEMAND STILL INCREASING.
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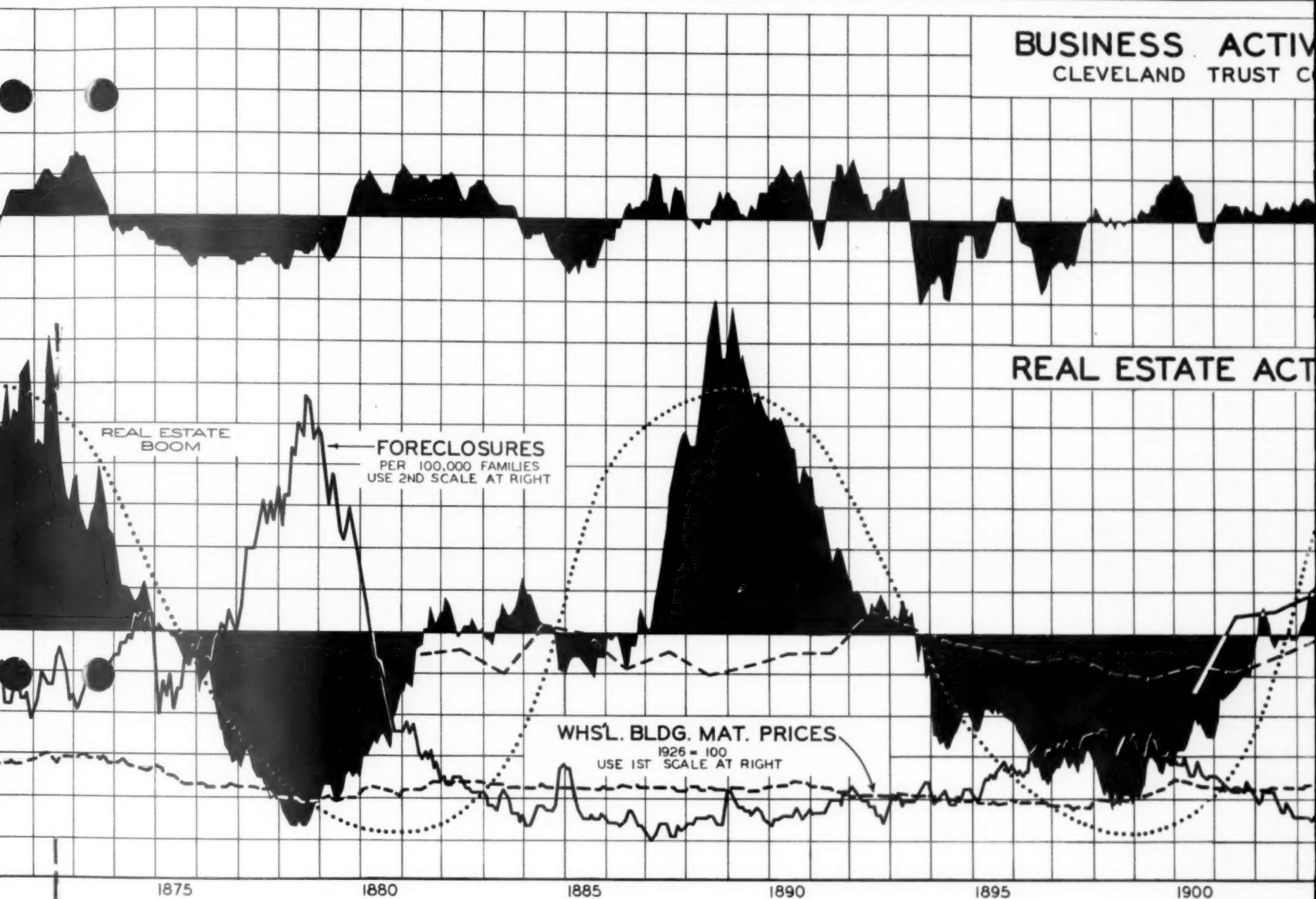
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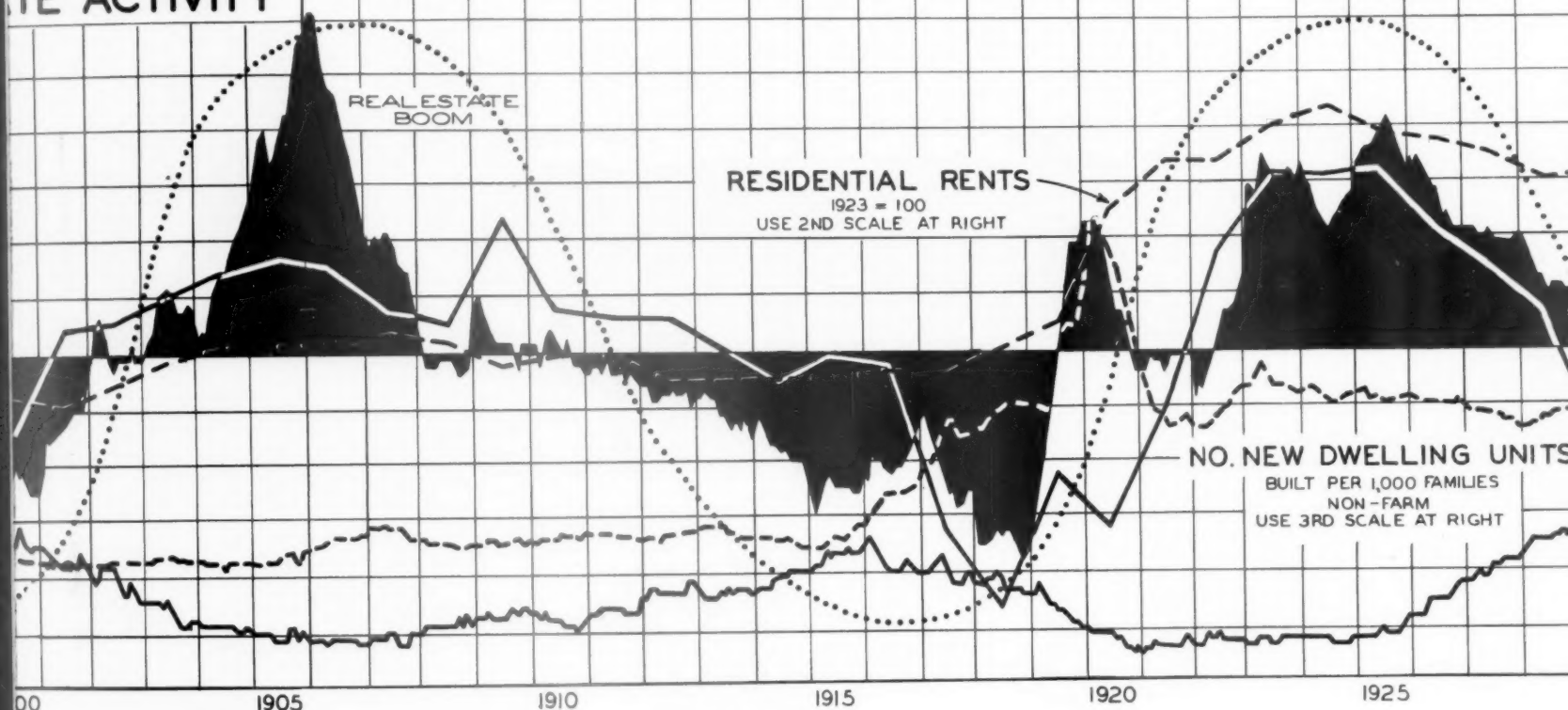
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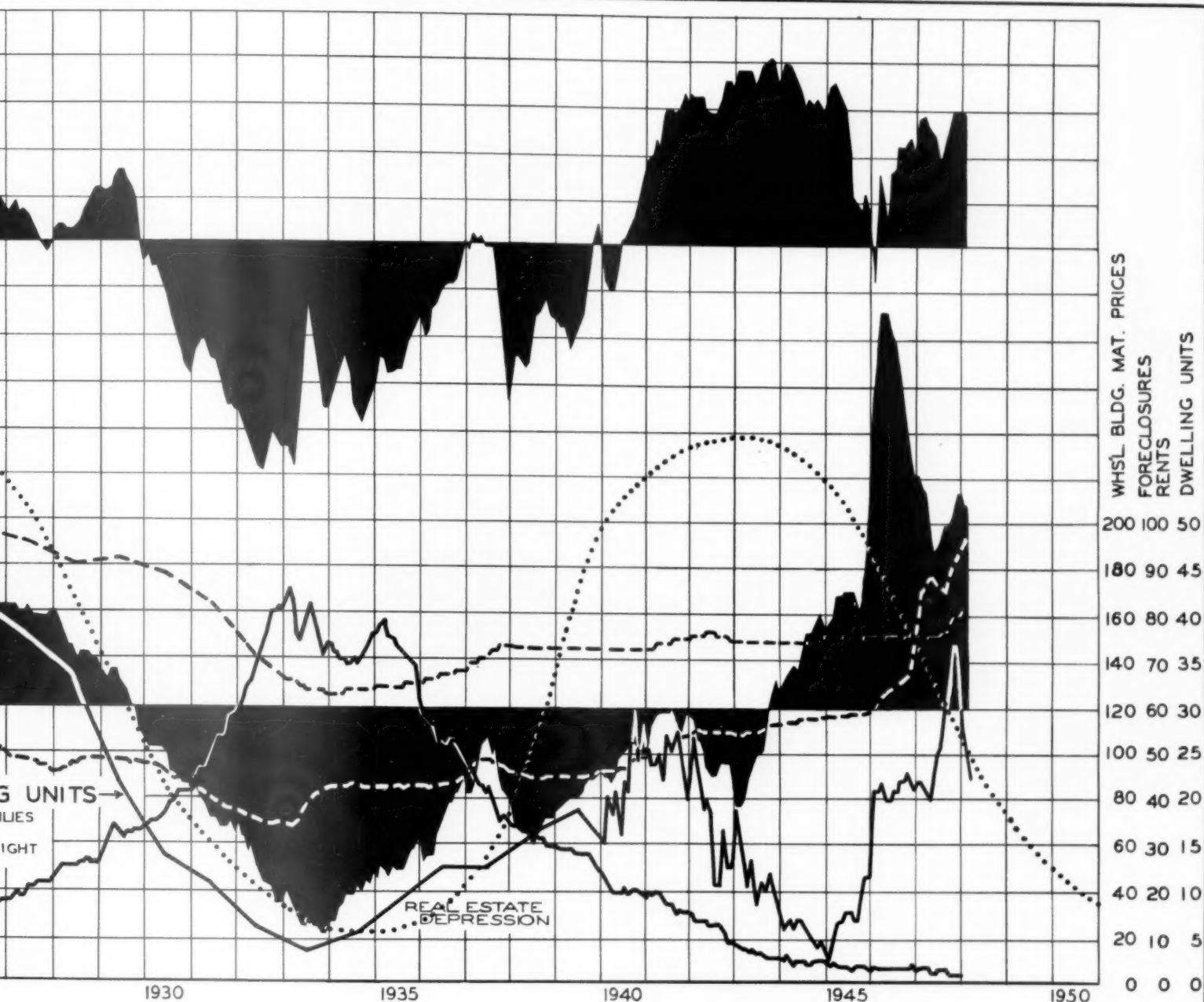
BUY REAL ESTATE

VACANCY SLOWLY ABSORBED.

HOUSING SHORTAGE DEVELOPS. MARKET PRICES RISE UNTIL SALES PRICES EQUAL OR EXCEED REPLACEMENT COST, RESULTING IN A BUILDING BOOM INTERRUPTED BY WAR RESTRICTIONS.

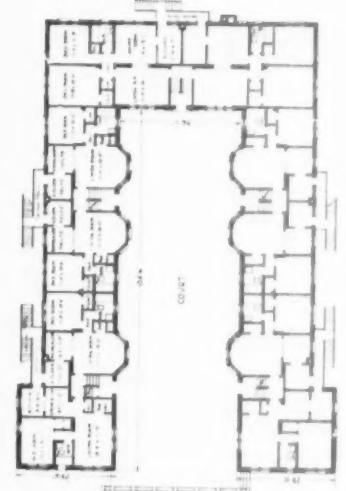
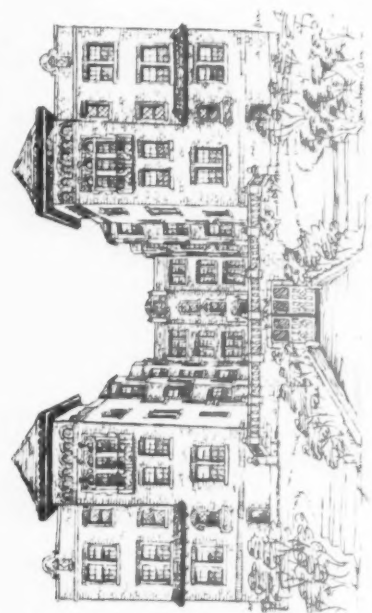
BUILDING BOOM RESUMED. DEMAND STILL INCREASING. BOOM HYSTERIA DEVELOPS, PRODUCING READY MARKET AT INFLATED PRICES.

SELL REAL ESTATE?



CONSTRUCTION COSTS OF A 30 UNIT REINFORCED CONCRETE APARTMENT

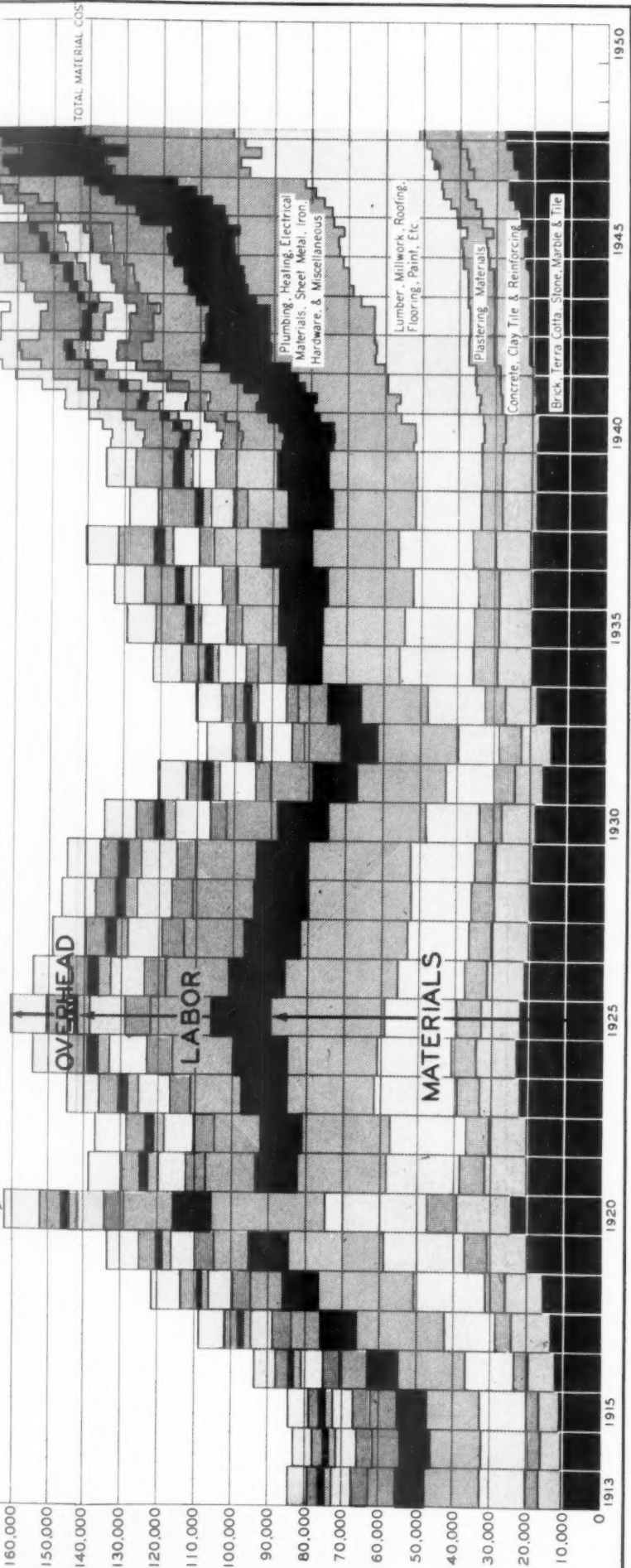
IN SAINT LOUIS
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COST OF LAND IS NOT INCLUDED



- TOTAL OVERHEAD
 - Builder's Profit
 - Taxes, Insurance and Interest During Construction
 - Permits, Fees & Inspections
- TOTAL LABOR COST
 - Excavators & Misc.
 - Plumbers, Electricians, Steam Fitters & Sheet Metal Workers
 - Lathers & Plasters
 - Roofers, Carpenters, Painters, Decorators, & Supervision
- TOTAL MATERIAL COST

BUILDING COSTS IN DOLLARS

TOTAL CONSTRUCTION COSTS



VARIATION IN COST OF A THIRTY-FAMILY REINFORCED CONCRETE APARTMENT IN SAINT LOUIS

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MATERIAL

1. Cost of face brick, dobies, flue lining, terra cotta, cut stone, marble and tile.
2. Cost of concrete, claytile and reinforcing.
3. Cost of all plastering materials.
4. Cost of all lumber, flooring, millwork, roofing, paint, etc.
5. Cost of all materials for plumbing, heating, electrical work, sheet metal work, iron work, hardware and special equipment.

6. TOTAL MATERIAL COST.

YEAR MATERIAL

1913	\$10,584	\$ 5,977	\$ 3,642	\$12,537	\$14,815	\$47,555
1914	10,654	5,427	3,642	12,659	13,865	46,247
1915	10,994	5,487	3,642	12,640	14,260	47,023
1916	12,184	7,389	3,587	13,336	18,296	54,792
1917	13,534	10,693	4,025	14,100	23,667	66,219
1918	15,724	10,157	5,396	19,330	25,974	76,581
1919	19,574	11,385	6,014	22,046	25,679	84,698
1920	24,210	15,110	7,938	27,558	30,608	105,424
1921	20,193	11,220	6,890	19,912	24,134	82,349
1922	20,281	10,010	6,359	20,818	23,655	81,123
1923	22,230	11,005	6,385	21,905	23,910	85,435
1924	23,130	10,955	6,730	19,885	24,583	85,283
1925	22,210	10,785	6,678	19,305	20,898	89,876
1926	21,046	10,240	6,029	18,192	30,475	85,982
1927	20,231	10,020	6,078	16,494	28,996	81,819
1928	19,754	10,020	5,893	16,227	28,035	79,929
1929	19,120	10,160	5,631	17,067	28,385	80,363
1930	18,630	8,973	5,952	14,737	26,499	74,791
1931	16,426	7,829	5,719	12,847	24,066	66,887
1932	14,416	8,015	5,796	11,813	21,354	61,394
1933	18,150	8,650	5,570	15,800	18,030	65,900
1934	19,950	9,050	6,600	19,890	21,100	76,590
1935	19,950	8,930	6,486	18,800	22,150	76,316
1936	19,480	9,180	5,700	17,600	23,250	75,210
1937	20,400	9,500	5,845	20,290	23,600	79,635
1938	18,620	9,300	5,670	17,770	22,420	73,870
1939	18,600	9,190	5,760	17,680	23,720	74,950
1940	18,570	9,220	5,810	18,850	21,750	74,200
1940	18,110	9,220	5,810	18,630	21,980	73,750
1940	18,110	9,160	5,810	18,860	21,980	73,920
1940	18,110	9,150	6,030	22,410	21,980	77,680
1941	19,050	9,270	6,030	22,800	22,500	79,650

LABOR

7. Cost of setting all stone, tile and marble and laying all brick.
8. Cost of carpentry, roofing, flooring, painting, decorating, and builder's general supervision.
9. Cost of labor on plastering.
10. Cost of installing plumbing material and fixtures, wiring, heating plant and sheet metal work.
11. Cost of excavation and miscellaneous.
12. TOTAL LABOR COST.

LABOR

1913	\$ 7,987	\$ 7,217	\$ 4,630	\$ 5,367	\$1,900	\$27,101
1914	7,987	7,277	4,630	5,367	1,900	27,161
1915	7,957	7,277	4,595	5,597	1,900	27,326
1916	8,307	7,326	4,690	5,777	1,900	28,000
1917	9,417	7,953	4,880	5,954	1,900	30,104
1918	9,574	8,600	5,020	6,084	1,900	31,178
1919	10,698	9,230	5,330	6,326	2,120	33,704
1920	10,351	13,261	5,090	7,414	2,710	38,826
1921	11,101	13,483	5,450	7,527	2,710	40,271
1922	11,024	12,528	5,560	8,044	2,710	38,866
1923	11,933	13,696	5,560	8,560	3,100	42,849
1924	14,538	16,213	6,840	10,087	3,380	51,058
1925	15,832	16,360	6,910	9,497	3,380	51,979
1926	15,162	16,440	6,100	9,205	3,380	50,287
1927	14,995	16,380	6,000	9,062	3,380	49,817
1928	14,474	16,380	5,720	9,315	3,380	49,269
1929	13,598	16,462	5,074	9,306	3,477	47,917
1930	13,469	13,536	4,537	9,296	3,166	43,958
1931	11,800	11,641	3,960	9,285	2,370	39,056
1932	9,819	10,090	3,270	7,826	2,080	33,085
1933	9,180	8,010	3,000	7,460	1,970	29,620
1934	9,180	8,010	3,000	7,460	1,970	29,620
1935	11,880	9,980	3,805	7,460	2,250	35,375
1936	12,700	11,650	4,300	7,460	2,815	38,925
1937	13,300	12,880	4,145	6,685	2,815	39,825
1938	11,750	11,100	3,820	6,100	2,250	35,020
1939	13,620	11,825	5,190	6,100	2,720	39,455
1940	13,540	11,200	5,340	6,100	2,815	38,995
1940	13,540	11,200	5,340	6,100	2,815	38,995
1940	14,590	11,200	5,690	6,800	2,815	41,095
1940	13,700	11,520	5,650	6,910	2,815	40,595
1941	14,890	13,120	6,120	6,910	3,660	44,700

OVERHEAD

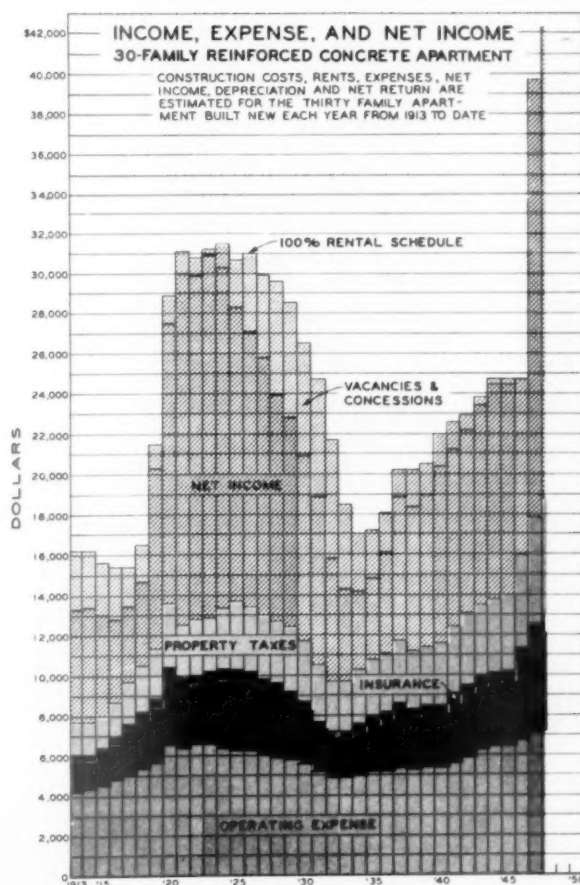
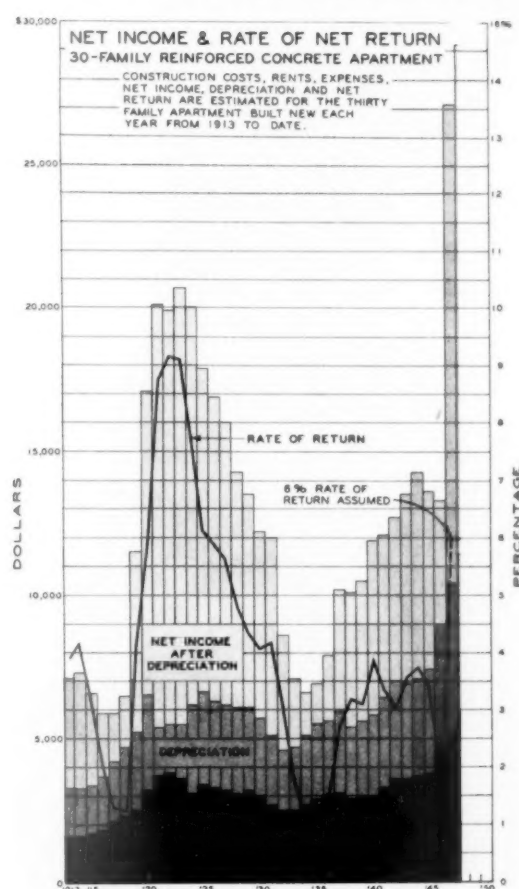
1913	\$ 1,445	\$ 3,143	\$ 5,320	\$ 9,980	\$ 84,564
1914	1,445	3,103	5,250	9,798	83,206
1915	1,495	3,188	5,300	9,983	84,332
1916	1,545	3,473	5,900	10,918	93,710
1917	1,720	3,973	6,850	12,543	108,866
1918	1,635	4,428	7,700	13,763	121,522
1919	1,770	4,863	8,400	15,033	133,435
1920	2,070	5,863	10,020	17,953	162,203
1921	2,210	5,248	8,700	15,958	138,578
1922	2,020	5,218	8,600	15,838	136,827
1923	2,220	5,313	9,150	16,983	144,967
1924	2,620	5,548	9,750	17,918	154,259
1925	2,920	5,888	10,020	18,828	160,683
1926	2,870	5,703	9,750	18,323	154,592
1927	2,670	5,537	9,400	17,907	149,243
1928	2,670	5,427	9,250	17,347	146,545
1929	2,649	5,170	9,160	16,979	145,259
1930	2,549	5,057	8,500	16,106	134,895
1931	2,465	4,513	7,600	14,578	120,521
1932	2,260	4,065	6,750	13,075	107,554
1933	1,990	6,116	6,826	14,932	110,452
1934	1,745	6,620	7,557	15,922	122,132
1935	1,700	7,887	7,937	17,524	129,215
1936	1,855	8,546	8,130	18,531	132,666
1937	2,140	10,200	8,560	20,900	140,360
1938	2,155	9,850	7,770	19,775	128,665
1939	2,230	10,300	8,150	20,680	135,085
1940	2,255	9,806	8,768	20,829	134,024
1940	2,255	9,778	8,734	20,767	133,512
1940	2,255	10,053	8,913	21,221	136,236
1940	2,255	10,233	9,153	21,941	139,916
1941	2,255	10,866	9,623	22,744	147,094

OVERHEAD

13. Cost of all city permits, utility connection costs, plans and engineering fees.
14. Cost of interest during construction and taxes and insurance.
15. Estimated profit made by the builder - 7%.
16. TOTAL OVERHEAD COST.
17. TOTAL COST OF CONSTRUCTION.

Ap	1941	18,950	9,300	5,940	21,800	22,450	78,440	15,320	13,410	5,970	6,910	3,800	45,410	2,255	10,890	9,592	22,737	146,587
Jl	1941	19,400	9,320	6,530	24,250	22,450	81,950	15,950	14,930	6,080	6,910	3,800	47,870	2,255	11,384	10,028	23,667	153,287
O	1941	19,490	9,330	6,650	24,100	22,400	83,570	17,890	16,200	6,180	8,000	3,800	52,070	2,255	12,036	10,495	24,786	160,426
Jl	1942	19,490	9,330	6,704	24,850	25,800	86,174	18,110	16,500	6,310	8,000	3,940	52,860	2,255	12,305	10,752	25,312	164,346
Ap	1942	21,046	9,560	6,704	25,500	28,500	91,310	18,110	16,500	6,310	8,000	3,940	52,860	2,255	12,615	11,132	26,002	170,172
Jl	1942	21,046	9,560	6,704	25,200	28,500	91,010	18,190	16,680	6,210	8,640	3,940	53,660	2,255	12,698	11,174	26,127	170,797
O	1942	21,046	9,560	6,704	25,810	28,500	91,620	16,320	14,900	6,210	6,910	3,800	48,140	2,255	12,029	10,782	25,066	164,826
Jl	1943	21,046	9,560	6,540	25,900	28,500	91,546	16,320	14,900	6,210	6,910	3,800	48,140	2,255	12,021	10,777	25,053	164,739
Ap	1943	21,046	9,560	6,540	25,900	28,500	91,546	16,320	14,900	6,210	6,910	3,800	48,140	2,255	12,021	10,777	25,053	164,739
Jl	1943	21,046	9,560	6,540	25,900	28,500	91,546	15,500	13,900	6,000	6,910	3,800	46,110	2,255	11,773	10,617	24,645	162,301
O	1943	21,046	9,560	6,910	29,000	28,500	95,016	15,500	13,900	6,000	6,910	3,800	46,110	2,255	11,984	10,875	25,114	166,240
Jl	1944	21,046	9,560	6,910	31,250	28,500	97,266	15,500	13,900	6,000	6,910	3,800	46,110	2,255	12,121	11,043	25,419	168,795
Ap	1944	21,046	9,560	6,910	32,450	28,500	98,466	15,500	13,900	6,000	6,910	3,800	46,100	2,255	12,193	11,132	25,580	170,156
Jl	1944	21,046	9,560	7,000	32,450	28,500	98,556	15,500	13,900	6,000	6,910	3,800	46,100	2,255	12,200	11,138	25,593	170,259
O	1944	22,000	9,920	7,000	32,450	28,500	98,870	16,850	13,900	6,000	6,910	5,340	49,000	2,255	12,648	11,464	26,367	175,237
Jl	1945	22,400	9,920	7,000	33,100	28,500	100,920	17,220	15,200	6,000	6,910	5,340	50,870	2,255	12,921	11,674	26,850	178,440
Ap	1945	22,400	10,150	7,000	33,100	28,500	101,150	17,220	15,200	6,000	6,910	5,340	50,870	2,255	12,936	11,690	26,881	178,701
Jl	1945	21,425	9,574	6,825	33,619	28,403	98,846	17,315	16,637	7,308	8,054	5,347	54,661	2,255	13,650	11,950	27,855	182,362
O	1945	23,466	10,373	6,994	33,437	28,403	102,673	23,243	22,292	8,632	10,936	6,196	71,299	2,255	15,940	13,420	31,615	205,587
Jl	1946	23,487	10,465	7,047	33,437	29,073	103,509	23,243	22,292	8,998	10,936	6,196	71,665	2,255	16,038	13,540	31,833	207,007
F	1946	23,487	10,465	7,047	33,437	29,073	103,509	23,243	22,292	8,998	10,936	6,196	71,665	2,255	16,038	13,540	31,833	207,007
Mr	1946	23,487	10,527	7,047	33,837	29,073	103,971	23,243	22,292	8,998	10,936	6,196	71,665	2,255	16,066	13,600	31,921	207,557
Ap	1946	24,982	10,639	7,047	33,837	30,475	106,980	25,321	22,292	9,199	10,936	6,196	73,944	2,255	16,530	14,000	32,785	213,709
My	1946	24,982	10,639	7,047	34,201	30,780	107,649	25,321	22,292	9,199	10,936	6,196	73,944	2,255	16,579	14,020	32,854	214,447
Je	1946	26,623	11,039	7,054	34,201	31,389	110,306	25,427	23,729	9,199	10,936	6,196	75,487	2,255	16,939	14,300	33,494	219,287
Jl	1946	26,623	11,039	7,054	34,220	32,303	111,239	25,427	23,729	9,199	10,936	6,196	75,487	2,255	16,995	14,400	33,650	220,376
Ag	1946	26,623	11,039	7,054	34,583	33,339	112,638	25,427	23,729	9,479	10,936	6,196	75,767	2,255	17,189	14,600	34,044	222,449
S	1946	26,623	11,346	7,789	35,420	34,650	115,828	25,427	23,729	9,479	11,506	6,196	76,337	2,255	17,383	14,800	34,438	226,603
O	1946	26,623	11,346	7,789	35,984	34,650	116,396	25,427	23,729	9,479	11,506	6,196	76,337	2,255	17,417	14,820	34,492	227,221
N	1946	26,623	11,346	8,057	43,260	34,650	123,936	25,427	23,729	9,479	11,506	6,196	76,337	2,255	17,875	15,400	35,530	235,803
D	1946	23,992	11,919	8,857	49,500	36,814	131,082	25,427	23,729	9,479	11,506	6,196	76,337	2,255	18,312	16,000	36,567	243,986
Jl	1947	24,013	12,278	9,399	51,120	36,814	133,624	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,649	16,800	38,704	257,954
F	1947	25,400	12,278	9,399	51,120	36,814	135,091	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,737	16,990	38,982	259,699
Mr	1947	25,400	12,278	9,399	52,200	36,814	136,091	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,796	17,064	39,115	260,832
Ap	1947	25,400	12,278	9,399	52,300	36,400	135,777	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,777	17,040	39,072	260,475
My	1947	25,510	12,700	9,405	51,120	36,200	134,935	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,726	16,978	38,959	259,520
Je	1947	25,510	12,700	9,405	48,000	36,200	131,815	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,525	16,745	38,525	255,966
Jl	1947	25,510	12,700	9,405	46,100	36,200	129,915	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,422	16,605	38,282	253,823
Ag	1947	26,400	13,025	9,325	47,050	37,250	133,050	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,613	16,838	38,706	257,382
S	1947	26,400	13,025	9,420	47,050	38,000	133,895	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,767	16,908	38,930	258,451
O	1947	27,250	13,025	9,420	48,500	38,000	136,195	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,803	17,020	39,078	260,899
N	1947	27,250	13,025	9,860	49,300	39,000	138,435	28,505	25,482	11,084	13,964	6,591	85,626	2,255	19,940	17,238	39,433	263,494
D	1947	27,250	13,025	10,400	50,400	39,600	140,675	31,800	26,600	11,470	14,190	8,180	92,240	2,255	20,920	17,925	41,100	274,015
Jl	1948	27,450	13,400	10,400	50,450	39,600	141,300	31,800	26,600	11,470	14,190	8,180	92,240	2,255	20,958	17,973	41,186	274,726
F	1948	27,510	13,600	10,900	50,500	40,600	143,110	31,800	26,600	11,470	14,190	8,180	92,240	2,255	21,069	18,107	41,431	276,761

EARNINGS ON 30-FAMILY APARTMENT



SINCE 1939 the construction cost of our thirty-family fireproof apartment building has increased over 104 per cent. The cost in February 1948 was \$276,781, compared to \$135,095 in 1939. Cubic costs approximate 91¢ and square foot costs now run about \$12.95. High building costs, coupled with continuing rent controls on older properties, are making apartment construction increasingly risky.

This building was discussed in the March 31, 1947, and September 30, 1947, issues of the Real Estate Analyst. General specifications were given in the first issue.

Although the St. Louis costs will not apply to other metropolitan cities, we believe that the variations in cost from year to year will be applicable to most of the larger urban centers.

In order to realize a 6 per cent net return after depreciation, the building would have to carry a rental schedule of \$42,170. This schedule makes no vacancy allowance, and figures down to \$34.45 per room for shelter rent, one garage space, heat, water, janitor service, stove and refrigerator.

This very optimistic schedule cannot be maintained for more than a few years. As the housing shortage draws to a close, vacancies and the competition of older buildings will force drastic rent reductions. Thus, while the rent schedule is undergoing this double attack, operating costs and fixed costs will be decreasing very slowly and the financing costs will be decreasing none at all.

The fact that the government is in the picture with its 608 loans does not change the economics or the arithmetic - actually 608's are much less sound than the regular run-of-the-mine uninsured loans. The fact that 608's are government guaranteed simply transfers the bulk of the risk from the mortgage lender to the taxpayers - and adds nothing to the fundamental unsoundness of long-term thin equity financing in today's market.

INSURANCE COVERAGE & REPLACEMENT COSTS

WHILE exact data are not available, we think that most property in the country is underinsured when present replacement costs are considered. This failure on the part of many property owners to insure to value becomes particularly risky where coinsurance is involved. A building insured up to the coinsurance requirements in 1946 is probably not up to those requirements today. Every increase in replacement costs not covered by additional insurance is an increased risk the owner assumes.

A great many property owners, particularly those who have not had to build or buy during the present boom, view high construction costs as something that happens to the other fellow and may at times be prone to congratulate themselves on their foresight in buying when the price was "right." Actually this nonchalant frame of mind is one few can afford as it is generally accompanied by a parsimonious or extremely optimistic attitude toward insurance coverage.

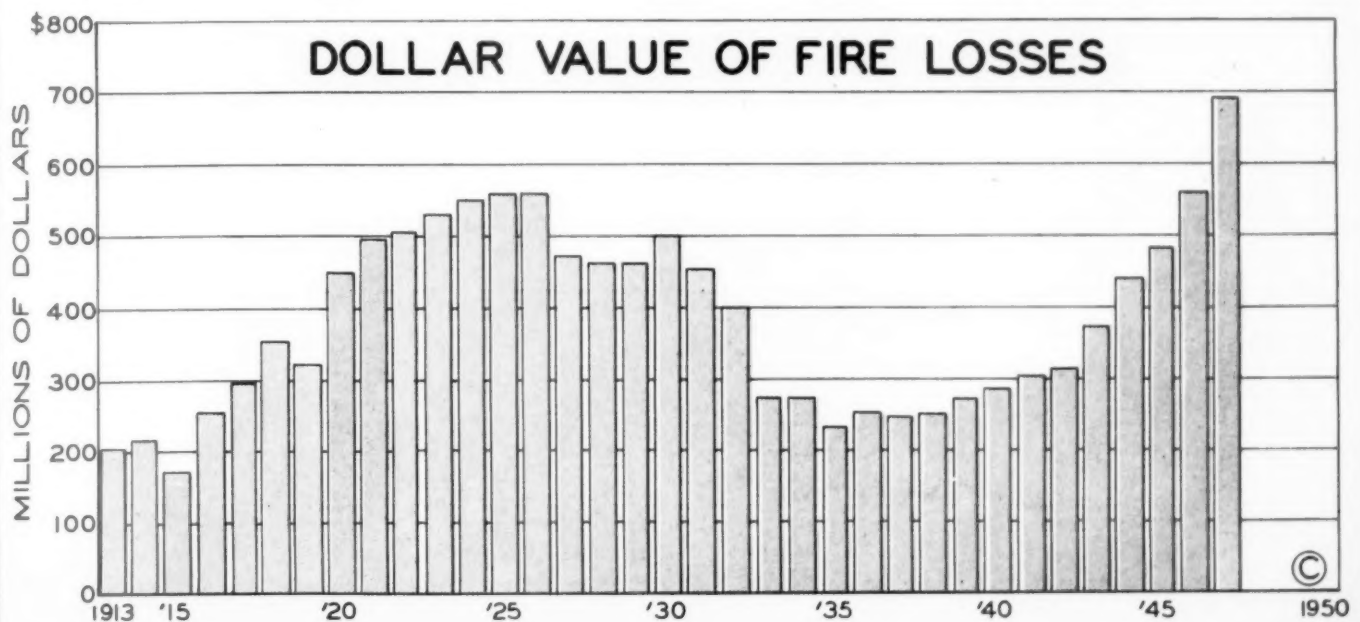
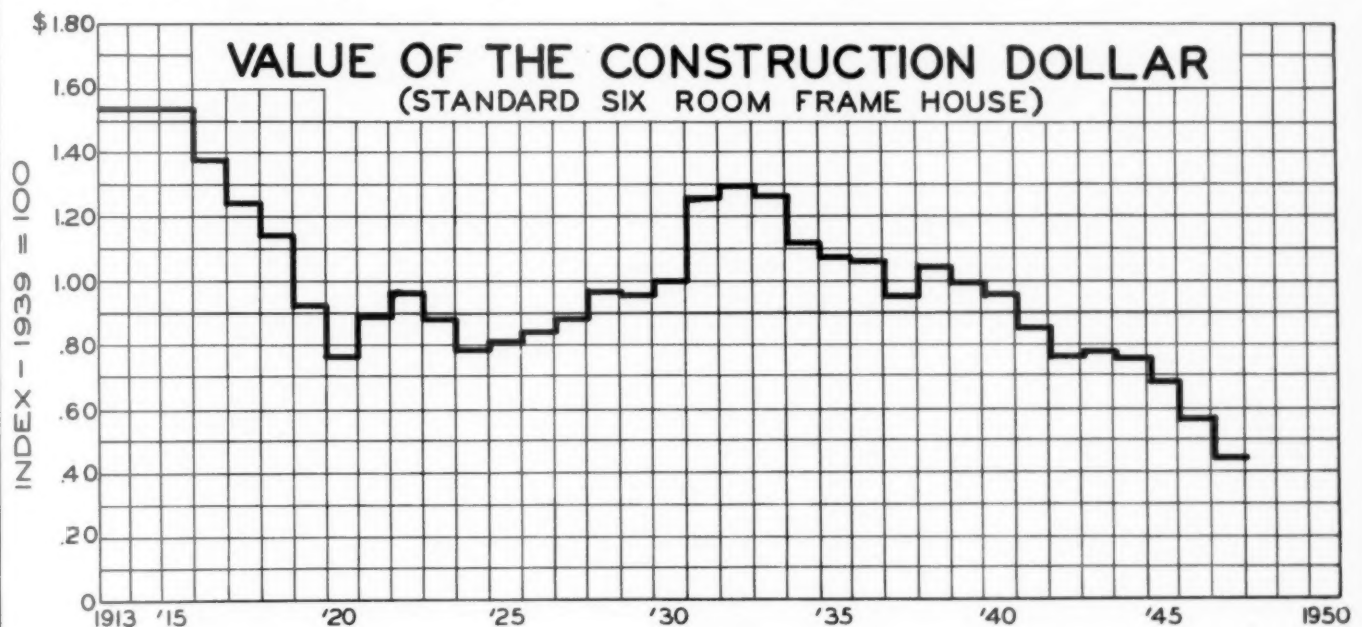
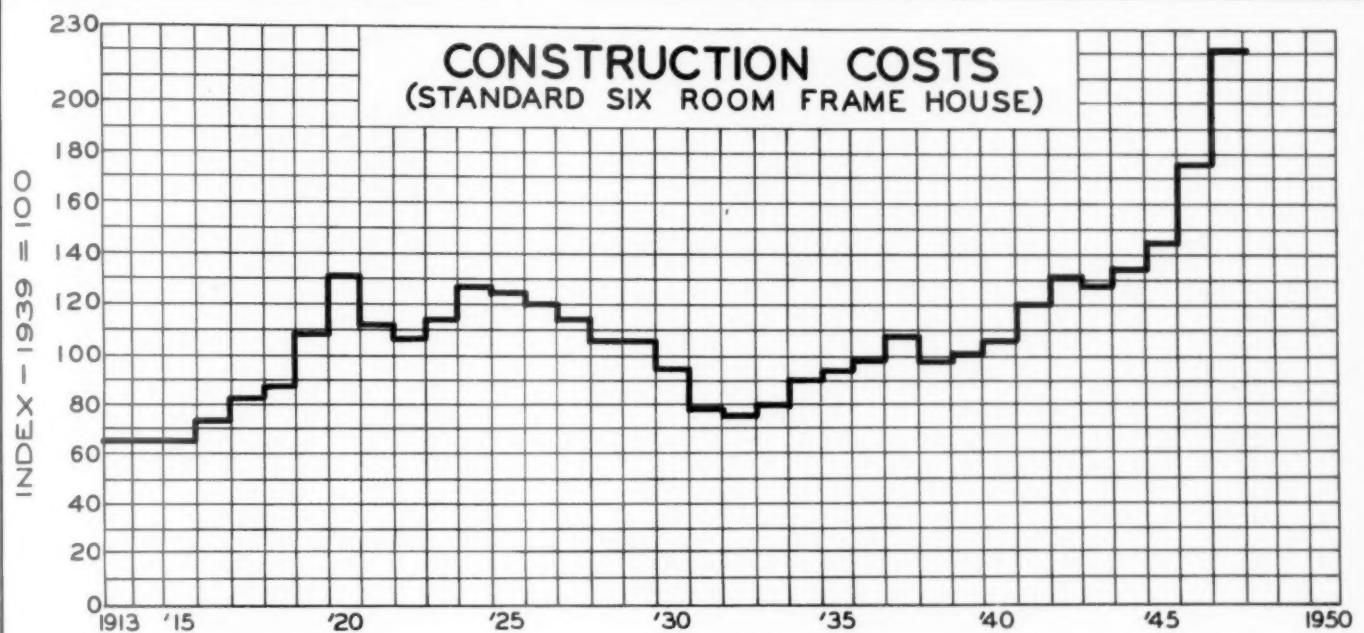
Since 1939 replacement costs have risen tremendously. The chart at the top of the opposite page shows that in order to get the same protection a \$1,000 policy gave in 1939, it is now necessary to carry a \$2,200 policy.

The chart in the center of the opposite page shows the swift fall in the value of the construction dollar. Assuming that the 1939 construction dollar was worth 100¢, today's construction dollar is worth only 45¢. Therefore, the \$1,000 spent for construction in 1939 is worth only \$450 today. To go one step farther, the \$1,000 fire and tornado policy taken out in 1939 is a \$450 policy today. Face value hasn't changed, but the protection has fallen alarmingly.

The chart at the bottom of the opposite page shows the annual fire loss in the United States from 1913 through 1947. The National Board of Fire Underwriters points out that in 1947 fire losses in this country were nearly 75 per cent greater than the estimated property damage in Great Britain during two years of Hitler's air blitz.

Coininsurance clauses, if properly covered and thoroughly understood, can save the insured a tidy sum in premiums. On the other hand, there are few factors of the insurance business that are as universally misunderstood. A coinsurance clause is a warranty attached to your policy stating that you will keep your property insured up to a certain percentage (80 and 90 per cent are most used) of its value throughout the life of the policy. If you do this you are reasonably safe. On the other hand, if you are not insured up to your coinsurance requirements, say 80 or 90 per cent of the replacement cost, the company is obligated to pay you only that percentage of the face value of the policy that coincides with the relationship between the coverage and the required coverage. In other words, if your building is worth \$10,000, you would be required to carry \$8,000 insurance under an 80 per cent coinsurance clause. Suppose you only carried \$4,000 insurance and suffered a \$2,000 fire. The company would be obligated to pay you only \$1,000. You carried only half of the insurance you were required to carry, so the company is obligated for only half the loss.

We offer this, not from the standpoint of insurance experts, but in keeping with our principle of keeping our clients well informed on all factors influencing real estate. We believe that most fire and tornado coverages will bear looking at.



REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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